In the fall of **1996** , Interior Minister Nikolay Dobrev prepared a secret report on the state of the banking system in Bulgaria. "Bad loans - unsecured and unserviced in 1995 amounted to BGN **342.7** billion, which is 40% of the produced gross public product", it is written in the document, which contains the names of banks, bankers, the schemes, as well as the colossal sums , which have leaked through them and damaged the budget.

The reason for the report is a scathing letter from the IMF urging the closure of dubious banks. The authors of the development are **experts** from the National Security Service (**NSS**).

BNB - BKP - BSP

The report became popular as "Dobrev" and it analyzed for the first time the genesis of the new private commercial banks, their interaction with the state financial institutions, the BKP-BSP appointed bankers and the schemes by which they were siphoned off through relatives and party red companies the banks.

"During the period 1990-95, **DSK alone** gave out over BGN **70** billion in loans, the majority of which were used to create private banks and companies. " **Hundreds of FBCs, exchange bureaus and other financial structures** receive licenses , with which, in essence, a parallel banking system begins to function in the country", writes Dobrev.

huge sums of money were leaked through the "... chain of "lobbyists, politicians, bank clerks, private companies" . A permanent opinion has been formed among the public that loans to sound companies are granted against a 10% commission, and for loans that are known in advance that they will not be returned, it is up to 50%.

Today, economists are adamant that the bankruptcy of 16 banks in **1996** ended the first phase of capital **accumulation in our country.** The then-disappeared money was then invested in the secondary distribution of capital during privatization. Thus, in effect, tangible assets worth $ **35** billion were seized and **looted** for $1 billion.

BSP CONGRESS / Nikolay Dobrev:

"... *Wasn't it clear even in 1995, despite the sugar-coated reports of the BNB, that the banking system is hollow, that it consumes much more than it earns?" ; "Wasn't it clear that the newly hatched private bankers living like oil sheikhs had neither the culture nor the responsibility to direct and manage these responsible credit institutions?* (Applause.)

Then why did the banking crisis take us by surprise and why do we complain about its devastating consequences?" ; "Why do we still not part with those directors for whom the plundering of state property has become a full-fledged and sure source of personal gain? (Applause.)

" *We all know that there is a practice of deliberate bleeding and bankruptcies, transfer of capital from state-owned to private companies, unjustified delay in the payment of debts to financial institutions, deliberate underestimation of appellate assessments, under-the-table denationalization.* "

DOBREV REPORT

Nikolay Dobrev's secret report on the collapse of the banking system in our country / Feb. 3. 2018

The report makes it clear that the new banks are becoming a unit in the mechanism for misappropriation of state funds.

The report was written in three versions - two shorter ones, for the ministers and deputies, and one full one, personally for the prime minister.

It consists of **24** standard pages, plus a **tabular** appendix.

The document carries classified information about individuals, many of whom held key positions in the state at the time.

During the period 1990-1996, 44 banks were established and operated in the country, some of which are almost **unknown** to the public. Their charter capital for incorporation was collected **illegally** from the cash registers and accounts of state banks and institutions.

For example, during this period, 70 billion BGN credits were withdrawn from the state (then) **DSK** , the main part of which went to licensing new vaults.

The authors of the report, which became known as the "Dobrev Report", report that the new banks become a unit in the mechanism for the appropriation of state funds.

The financial experts of **the Ministry of the Interior** , who prepared the study, report that **the BNB** has become a "state within a state".

THE "DOBREV" REPORT / TEXT

The development of **the banking** system in Bulgaria occupies a **dominant** place in the economic and socio-political processes in the country in the years after 1989. It reflects both the essential processes of the transition and its specific national form, including and a number of **deformations** accompanying this transition .

The leading idea of the transition to a market economy - the redistribution of property - predetermines a primary role of **banks** as one of the main **instruments** of this transition.

However, the reform in the banking sphere, both in terms of the pace of progress and in terms of the functions actually performed by the banks, diverges from the transformations in the real sector.

This discrepancy has a significant impact on the functions of the entire banking system, distorts its goals and gradually turns it into a factor that has **a negative** impact on the national economy.

The nature and scale of the contradictions, weaknesses, deformations and illegalities in the functioning of the banking system follow the stages from its inception to its current **acute** crisis state.

THE GENESIS OF THE MODERN BANKING SYSTEM

Until 1981, the Bulgarian National Bank, the Bulgarian Foreign Trade Bank and the State Savings Bank operated in the country, as:

1 BNB combines the functions of issuing and commercial bank;

2 BVTB specializes in foreign trade operations and management of the country's foreign exchange reserves, a

3 DSK primarily serves the savings and credit activity of the population.

At the end of 1989 and in 1990, on the basis of the **BNB branches, 59** new commercial banks were created , some of them with insignificant capital.

On 28.04.1990, a congress of the Union for Economic Initiative of Citizens was held, which decided to establish a commercial bank.

The congress was attended by Zhelyu Zhelev, in his capacity as chairman of the SDS. Founders of SSIG suggest to him to correct Art. **13** of the Constitution by abolishing the state monopoly on banks.

After a few days, the parliament voted on the change and the documents /constitutional agreement and signature/ of the future First Private Bank were submitted to the BNB. The Management Board of **the BNB** /Chairman Ivan Dragnevski/ reacted immediately and issued permission to establish the bank.

The court decision is not too late, despite - **the absence** of the relevant law on banks and the credit case.

"The lack of the relevant **law** for banks and credit matters!"

LICENSED EXPLOSION

With the change of the governor of **the BNB,** a real license "explosion" occurs.

In almost all cases, the means to raise the authorized capital and to purchase the shares are made with loans from the State Bank of Ukraine **and** state banks. (DSK is not a state bank, like BNB AD companies)

Some of them were also created by presenting documents with **fictitious** content about the collected authorized capital, by buying external debt and pledging or reselling it to third parties or by **other** mechanisms.

For the period 1990-95, DSK alone gave out over BGN 70 billion in loans, the majority of which were used to create private banks and companies. **Hundreds of** FBCs, exchange bureaus and **other financial structures** receive licenses , which basically means that **a parallel** banking system begins to function in the country.

In 1990-1991, as a result of **serious banking violations, huge financial resources** were withdrawn in the form of loans without the necessary collateral. At the same time, the newly established commercial banks issue new shares, which are placed on the stock market at and above their nominal value, without an assessment of the financial condition of the banks based on their assets and liabilities.

A credit bank is created with **DSK money** . " Elitbank " was created by means of a foreign currency loan drawn by "Biochem" and funds of PCHMB; "Mollov" - through a loan from DSK, PCB and betting on foreign securities, which it needed only to raise the necessary capital; "Agrobusinessbank" was established with funds provided by ZPD "MIK" JSC and loans; "First Investment Bank" - as a satellite bank of PCB, for the purpose of transferring funds and financial games; "Private Agricultural and Investment Bank" was established with a loan from DSK in the amount of BGN 170 million; The capital of "Creditexpress Bank" was collected by purchasing the external debt of a state enterprise, which was subsequently pledged and a loan was withdrawn from "Mineralbank" and PCBB.

Capitalbank " or the licensing of ČZIB with a promissory note from NEK for **the payment** of BGN 700 million twice are striking. from DSK in favor of the private bank.

This situation is well **known** to the BNB, without taking appropriate measures.

1993

It was only in the first half of **1993** that the Board of the BNB adopted the main regulations regulating the conduct of banking activities in the country.

1994

At the beginning of 1994, "certain weaknesses in the licensing activity of the Banking Supervision Department" were identified and, on this basis, changes were proposed in Ordinance No. 2 on licensing.

Already at this initial stage, **the abuses** of the bank loans granted by the state banks begin.

A significant part of the funds are diverted to private banks, from them to companies and individuals, after which they are declared hopeless collections.

Another part of them are converted into currency and **exported** as " Loro " accounts in foreign banks.

Moreover, in the process of birth and formation of the banking system, violations are allowed and **conditions are created** for the subsequent deformations in its functioning.

The speculative mechanisms used in the creation of banks are **transferred** to the sphere of their development and functioning.

For this there are both legal breakthroughs and an established organization.

OCG

suitable personnel for these goals and objectives have also entered the banking sector .

In the beginning of the banking system, the three main lines of crimes and violations of the law were formed, which actively contributed to the current crisis situation of the banks:

- the use of unbalanced relations between banks and state-owned enterprises / the transfer of the deficit of enterprises to the banks, and from the latter to the BNB and the budget / to appropriate huge funds by controlling the entry and exit of the enterprises;

- the distribution of unsecured loans and the low return on the huge funds distributed;

- the inclusion of some banks in "money laundering" mechanisms and their association with various forms of illegal business.

BANKS AS A UNIT IN THE MECHANISMS FOR **THE APPROPRIATION** OF STATE FUNDS

The long-term imbalanced nature of the relationship between state-owned banks and state-owned enterprises, with all the resulting consequences, is decisive for the deepening of the crisis.

Part of these losses are from the guarantees of state-owned companies for granting loans to the private sector. In 1991-1993, these guarantees were recorded on the banks' balance sheets as liabilities of the state non-financial

sector, while in 1994 and especially 1995, a large part of them were shown as loans to private companies. Some of the new loans continued to be taken out to cover the losses and thus, the problem was transferred to the banking system.

342.7

The amount of "bad" and doubtful loans at the end of 1995 amounted to BGN 342.7 billion, which constituted nearly 40% of the gross domestic product produced during the year.

53.3

The net capital value of commercial banks is negative - BGN 53.3 billion. The main share of the capital shortfall accumulated in the entire banking system falls on several state and private banks: Stopanska -15.4 billion BGN, UBB -14, 9 billion BGN, "Balkanbank" - 14.4 billion BGN, "Biochem" - 8.2 billion BGN, " Minbank " - 7.7 billion BGN, "Agrobusinessbank" - 8.2 billion BGN ., PCB - BGN 7.3 billion, BZK - BGN 5.6 billion.

In recent years, economic groups and companies have stood "at the entrance and exit" of large objects in structure-determining branches of the real sector, essentially monopolizing the import of raw materials and the realization of their production.

BNB - DSK

In this way, through the "spider" system, **enormous** state funds were siphoned off under the scheme: refinancing of commercial banks by BNB and DSK - crediting by commercial banks to large producers - realization of production by entities in the private sector.

Simultaneously with this "overflow" of funds, commercial banks accumulated huge bad loans from manufacturers.

Credit relationships are implemented according to complex multilateral **schemes** - mutual guarantee of loans, transfer of obligations, provision of collateral, tripartite operations, etc.

1995 / 700

In 1995, the heads of the Energy Committee signed promissory notes for the payment of BGN 700 million in two installments. from DSK in favor of ČZIB. The records were submitted to the DSK, the amounts were absorbed and subsequently **hidden** . The majority of "bad" loans of private banks are granted to companies and individuals working in them, shareholders or companies related to them.

" Biznesbank " JSC was purposefully used to redirect the resource granted by the BNB and DSK to private companies of the main shareholders. The biggest debtors of the bank are "Sveti Ioan" AD, Nova Television /Darko Tamindzic /, Dobrudzhanska banka.

At the same time, in 1996 alone, **DSK** refinanced " Biznesbank " with over BGN 6.5 billion.

Some of the factors that led to the difficulties of the PCB are connected with the outflow of capital from it / including the refinancing from **the BNB** / to TB "Mollov".

be missing at the PCB headquarters , which is why the companies and the amount of the loans **cannot** be established without the necessary collateral.

A permanent opinion has been formed among the public that loans to sound companies are granted against a 10 percent commission, and for loans that are known in advance that they will not be returned, the commission is up to 50%.

LOAN HOUSES

The inclusion of some banks, FBCs and exchange bureaus in the mechanisms of "money laundering" and their association with various forms of **illegal** business also had an extremely unfavorable impact on the banking system.

From 01. 01 . **1996** until 30.07.1996, **2811 kg** were exported from 9 state and private banks through the customs office of Sofia Airport . "valuable" items containing banknotes. For comparison: 1 million US dollars, in bills of 100 has a weight of **8** kg. The export of " Elitbank " is impressive, it exported 1247 kg. valuable shipments, which, expressed in $ **100 bills** , is in the order of $156 million.

The bank **does not** appear on the BNB list for direct export of valuable shipments.

DEVALUED LEV **DUE TO THEFTS**

The sharp devaluation of the leva in the middle of this year was also caused by the massive purchase of dollars and other foreign currency, mainly by "ING Bank", "Bulbank" and " Elitbank ".

the scheme adopted as a legislative norm by the Grand National Assembly , to treat deposits of foreign depositors as investment and to interest them at the currently high rate, can be considered .

This allowed a large number of foreign citizens, companies and persons close to the government's economic teams, in 1991/1992, to "launder" and legalize large **amounts** of currency, some of which were of unclear origin, and subsequently multiplied to be **taken** out of the country .

One of the biggest debtors of "Balkanbank" AD is "Balkankar Holding", whose debt amounts to about BGN 7 billion.

* * * BNB **CENTER** * * *

The complex of reasons for the collapse of the financial and credit system is concentrated and almost **entirely** reflected in the relations between **the BNB** and commercial banks.

Effective banking supervision with strict rules and impact measures was not established. Mistakes of this order, conscious or unconscious, allowed unsecured loans for billions of BGN to be given out.

CORRUPTION

This money, concentrated in private hands, created the conditions for **corruption** to grow to unlimited proportions.

SCHEMES

Schemes were devised to overcome the anemic banking legislation and a whole system of granting and redistributing bank credit. The most organized, with the "most rational approach" in the new conditions, turned out to be **the former** nomenclature, which had preserved its strategic positions.

Individuals from the top echelon, through their proxies, created a **seamless** scheme for **siphoning** capital abroad, with the aim of concealing its origin.

BUSHONS

With particularly important functions in this perfect scheme, these bankers / ex. bank directors/ who accepted to play the role of "plugs".

To proxies, they provided funds for various needs: **political** - for individual political forces, economic - for individual groups and for **personal** benefit, both to themselves and to the benefactors around whom they lobbied.

THE MONEY OF BULGARIA

During a long period of time, when the mistakes made in the banking system were already realized /after 1991-92/ the already created favorable conditions for speculation and **corruption were artificially and deliberately maintained** .

Processes in this order began to be controlled by the increased **appetites** of empowered individuals and created new **problems** .

With the old tools, it was no longer possible to hide **the huge** losses calculated in the banks subjected to "sucking" according to the described scheme.

This predestined in 1994-95 for the first signs of the real state of some banks to appear in their annual accounts, expressed in huge **unrecoverable** losses.

The crisis in our banking system had a favorable effect on foreign banks that opened branches in our country.

A large part of the foreign currency deposits withdrawn by Bulgarian citizens were redirected to Ingbank , Raiffeisenbank, Chiosbank , Dresdenbank .

The policy and commitment of **the BNB** to maintain a stable dollar exchange rate for a period of years led to the sale of cheap dollars in the country, and their export abroad was not a problem for licensed foreign banks.

BNB / MIA

In the last few years, **the BNB,** on the basis of its relative independence and autonomy, managed to structure itself as a "state **within** a state".

It managed to legally close itself informationally, isolating important state institutions in terms of control and prevention, including the authorized bodies of the Ministry of Internal Affairs.

BNB **ECHALON**

This was a "catalyst" for the rapid development of the processes described above and allowed **corruption** to cover the highest levels of **the BNB** , which "closed" the information about violations and abuses on a huge scale, committed by persons related to them.

Responsibility for the crisis in the financial and banking system and all resulting and resulting adverse consequences for the country **rest with** the Management Board of **the BNB** .

The influence of the head of the "Foreign Exchange Operations" department in determining the exchange rate of the lev allowed banks and companies close to him to realize **huge** profits from currency speculation based on **preliminary** information about sudden and "unexpected" changes in the exchange rate.

The blurred **collective** responsibility of the management of the BNB led to the licensing of banks, FBK and exchange bureaus, which started large-scale **uncontrolled** financial speculation.

POLITICS

Personnel policy is also a factor destabilizing the banking system. Many of the directors of the large state-owned banks are appointed and reappointed according to their loyalty to the ruling **political** elite of a given period.

The business and professional qualities of bankers and bank supervisors are not taken into account, but their **political** commitment.

former bartenders were appointed as chairmen, members of boards of directors and other responsible positions in some banks .

All this created conditions for **corruption** and lobbying of employees in individual banks and became **the basis** for the mass implementation of the described scheme of "pumping" of funds from the banks.

OFFICES AND EXPENSES

The factors that led to the crisis in the banking system, related to its operational management, include the unreasonably **high** costs incurred by the banks, which are **not** directly related to the main activity of these institutions.

Many of the banks opened a wide branch network in the country, and for its creation and maintenance they invest a lot of funds, which have a slow and impossible return.

Cars, land and pompous buildings were bought, which absorbed **huge** funds in BGN and foreign currency.

Even now, some elements of the operational **management** by the BNB cause bewilderment.

PRIVATIZATION

The current state of the financial and credit system cannot help but adversely affect the privatization processes in the country.

A total of 24 funds are affected.

* * * BNB - **CRIMINAL BASIS** * * *

The crisis in **the banking** system actually threatens to destabilize the national economy and creates prerequisites for increasing **the criminogenic** factors stimulating or favoring large-scale speculative activities - **outflow** of currency from the country; "laundering" of criminal capital accumulated in the country or imported from abroad; **misappropriation** and waste of property, raw materials and production; abuses and compromising of the real sector at the stages of restructuring, cash and mass privatization.

COMBAT AND PREVENTION

In order to support the activities of the government on the recovery of the banking system, within the competences of the Ministry of Internal Affairs, we consider it urgent:

- On the basis of the preliminary agreements of the Ministry of Internal Affairs with the National Prosecutor's Office and the General Prosecutor's Office, with the participation of the Ministry of Finance, to develop a mechanism for mutual information and synchronization of the activities of these departments and documentation of crimes of officials in the banking and financial sector and their attraction to criminal liability.

- The authorized services of the Ministry of the Interior should have access to the subjects of the financial and credit system, for the performance of their legally regulated functions.

- Immediate supplementing and updating of PMS N 324/1996 and Decision N 475 of the Council of Ministers, to regulate the status of security officers and the

regime in the banking and financial-credit system and their appointment in the BNB and commercial banks."

END OF **QUOTE** "DOBREV"